

Enterprise Applications

Current ERP Environment and Statewide Options

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Table of Contents

Background	1
Statewide Financial Systems	1
Issues	2
Costs.....	3
Statewide Options	5
Option 1: Reduce Agency-Specific Customizations	5
Option 2: Implement A Statewide ERP Financial System.....	5
Option 3: Convert USAS User Agencies to a Statewide ERP Financial System ...	6
Conclusion	8

Background

Every business or government agency needs to track information regarding their finances, their employees, and the items or assets they own and manage. Software applications that track this type of information are called Enterprise Resource Planning (ERP) systems. Managing these assets in an integrated application allows an organization to have a consistent view across the entire enterprise. This enterprise-wide view allows ERP systems to go beyond the traditional transaction-based accounting systems maintained at the organization level and deliver fully integrated financial and human capital management based on industry-derived best practices across organizations.

STATEWIDE FINANCIAL SYSTEMS

The Uniform Statewide Accounting System (USAS), managed by the Comptroller's Office, is the state's General Ledger and reporting system of record. State agencies have the option to use USAS directly as their accounting system (known as *internal users*) or maintain their own systems and report necessary

In 1987 the Comptroller's Office was mandated by the 70th Legislature to make uniform the collection and reporting of statewide payroll and personnel data. Over time, the Legislature modified provisions of the Accounting Procedures statute, enabling the Comptroller's Office to decentralize the administration of the accounting systems, while maintaining authority over agencies' reporting requirements. The following systems were implemented as a result of this legislation:

Uniform Statewide Accounting System (USAS) Implemented in 1993, USAS provides an accounting system that meets statewide reporting and budgetary control requirements while providing the detailed information required by State Agencies for their reporting and reconciliation

Uniform Statewide Personnel System (USPS) Implemented in 1994 to process payrolls for state employees, utilizing a centralized and standardized payroll calculation

Human Resource Information System (HRIS) Implemented in 1989 to collect personnel data about each state employee as well as their job-related information

State Property Accounting (SPA) SPA is primarily an asset depreciation tracking system that maintains centralized records of property based on information supplied by state agencies and USAS

information to USAS electronically (known as *reporting agencies*). Reporting agencies tend to be larger agencies that seek end-to-end functionality, such as purchasing, asset management, accounts payable and enhanced reporting capability. Currently, the number of USAS reporting agencies reflects approximately 90 percent of state agencies' total budget appropriations.

Several of these reporting agencies have implemented an ERP system that provides appropriate interfaces to USAS. Because ERP systems are functionally and technically complex to implement, maintain and upgrade, the extent to which the system is modified will impact the system's total cost of ownership.

In an effort to bring some consistency and cost savings to agencies' procurement of an ERP license, DIR, on behalf of the State, established a statewide enterprise license with PeopleSoft, the predominant ERP system in use by state agencies.

This license provides financial and human resources software, software maintenance and professional and education services to all state agencies. The software license, funded by the Health and Human Services Commission, is available to all state agencies at no additional fee, provided they share in the annual maintenance cost.

While a statewide license has reduced the state's expenditures for software, costs associated with supporting multiple PeopleSoft installations continue to escalate. Statewide implementation costs are high as they are performed independently at each of these installations. Given the high cost to implement, PeopleSoft remains out of the reach of many agencies that still maintain legacy financial systems while the statewide license remains underutilized.

The Integrated Statewide Administrative System (ISAS) project, managed by the Comptroller's Office, delivers and supports a state-customized version, known as the ISAS Baseline, of PeopleSoft's suite of financial ERP applications.

The financial ERP environment is hampered by several factors that exist in the State. The ISAS Baseline has generally been extensively customized by agencies to meet their agency business requirements. Additionally, the complexity of the software and the ongoing upgrade cycle imposed by the software vendor has presented challenges to agencies' ability to maintain the application.

ISSUES

Because agencies are not required to adhere to the ISAS Baseline, they typically adapt and customize the state version to meet the needs of their specific business processes, typically, employing independent consultants to support their efforts. While the ability to configure and customize the product to meet an agency's specific business requirements was once considered a desirable aspect of the application, over time this feature has resulted in an inefficient use of state resources for the following reasons:

- The ISAS project team must maintain different versions of a baseline version while engaged in a continuous upgrade cycle.
- Custom modifications, present today in each PeopleSoft agency, have to be remodified and deployed with each new version.

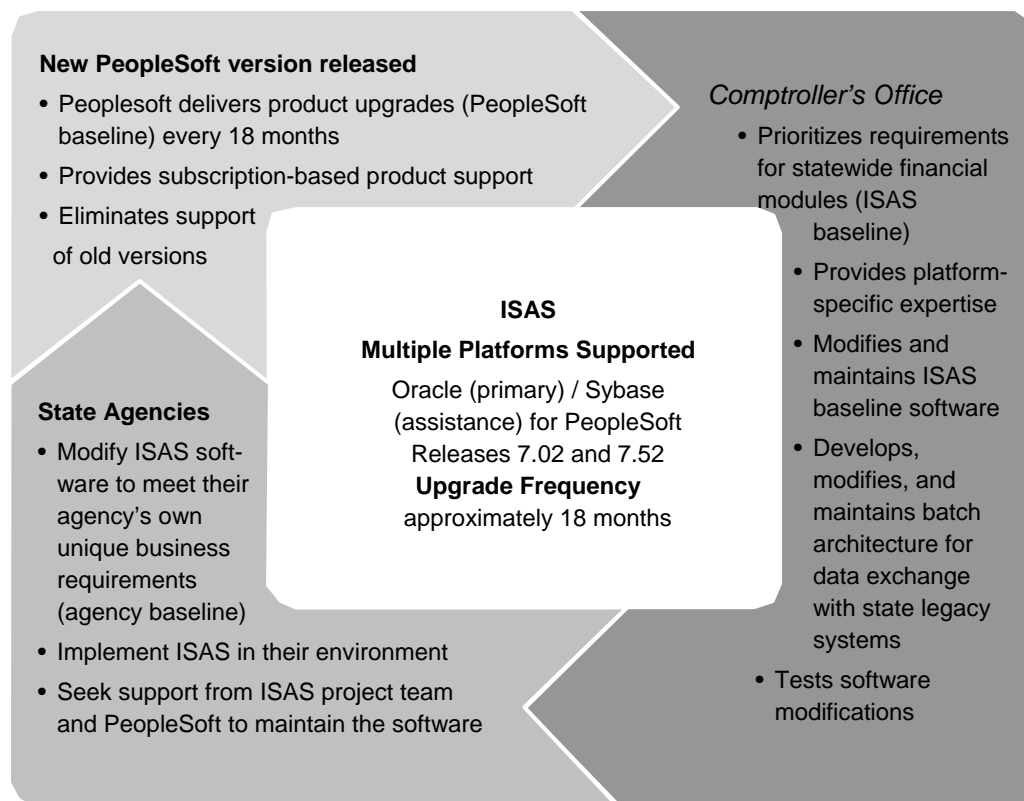
Integrated Statewide Administrative System (ISAS)

The ISAS project, managed by the Comptroller's Office since 1995, encompasses the customization of PeopleSoft Financials, an integrated financial system that is more adaptable to the access and reporting needs of agencies than the state's mainframe-based system. Initially, seven agencies participated with the CPA in this project, and over the course of time, additional HHS agencies have joined the effort.

The ISAS modules include general ledger, purchasing, accounts payable, inventory and asset management, accounts receivable, billing and cash receipt processing. Future releases planned include grants management, time and labor and budget.

- Agencies' resources are thinly spread across functional and technical areas of product maintenance and development and some have resisted or attempted to defer the upgrade cycle.
- Not moving to a current version of the ISAS Baseline places that agency at significant risk of being unsupported by both the ISAS project and PeopleSoft.
- Moving to a new product release (of PeopleSoft) prior to the ISAS project places that agency at risk of being unsupported by the ISAS project.

The result has been a continuous cycle of upgrades and modifications.



Because the current level of state resources is focused on the delivery and support of existing ISAS modules, the ability for the state to implement additional financial modules included in the statewide license has been limited.

COSTS

A detailed cost analysis may be needed to determine if an alternative ERP model can deliver statewide savings; however, a high-level examination of agency-reported project expenditures reflects that the level of effort and cost required to support ERP systems remain constant over time.

- In June 2000, life cycle costs for ISAS-related projects reported in agency Biennial Operating Plans (BOP) totaled approximately \$36 million. Additionally, other ERP implementation projects, such as the human resources suite of applications within PeopleSoft, totaled more than \$30 million.¹
- In March 2003, state agencies projected their then-current biennial expenditures to implement, maintain, and upgrade PeopleSoft financials would be approximately \$35 million and an equivalent amount was projected in fiscal years 2004 and 2005. The Health and Human Services Administrative System project accounted for approximately 50 percent of the costs projected in these biennia.²
- In March 2004, the costs estimated by state agencies that have implemented PeopleSoft and ISAS statewide project support totaled more than \$30 million for fiscal 2004. This amount represents approximately 80 percent of the costs projected by all state agencies for their financial and human resources applications.³

The Gartner Group recommends that organizations budget for their ERP upgrades every 18 to 24 months, and notes that they should expect a minimum cost of 5 to 15 percent of the original project cost and upwards to 75 percent of original project cost based on the scope of the upgrade project.⁴

Given that a sustained investment is needed to maintain and upgrade an ERP system, it is essential to evaluate benefits other than cost savings to determine the value of a statewide ERP strategy.

¹ TxSPIRS

² State Agencies Report to State Auditor's Office, March 2003

³ Statewide Information Technology Asset Reporting

⁴ Gartner Research Note, "Justifying an ERP Upgrade? Take a Longer View," 27 March 2002

Statewide Options

DIR, in conjunction with several state agencies, has examined methods in which the state can reduce the total cost of ownership for PeopleSoft financial systems implemented across several state agencies.

OPTION 1: REDUCE AGENCY-SPECIFIC CUSTOMIZATIONS

The first option is to reduce the amount of modifications that agencies make to the ISAS Baseline. This requires agencies to reengineer and implement more uniform business processes. An upgrade to Release 8.8 of the financial software is currently in progress that will enable ISAS agencies to migrate to a fully web-enabled version of the application.

To this end, the Comptroller's Office has worked with agencies to consolidate requirements with a focus on removing customized modules to reduce the maintenance and development costs.

PROS

Establishing and enforcing guidelines by which agencies must justify their requirements to modify software to meet business needs would result in:

- Fewer modifications, thereby decreasing the total cost of ownership for the state
- More effective use of agencies' functional and technical staff
- Enhanced support from the statewide ISAS project
- Greater opportunities to leverage state resources and future implementation options
- Reduced cycle time to implement application upgrades

CONS

The cons of implementing guidelines include:

- Consideration for a process by which to evaluate justification for modifying the ISAS Baseline
- Enforcing adherence to the ISAS Baseline
- Agencies adopting common business practices is more difficult than simply allowing full customization

OPTION 2: IMPLEMENT A STATEWIDE ERP FINANCIAL SYSTEM

Another option is to conduct a statewide reengineering effort with the intent of standardizing requirements to develop a consolidated financial ERP solution for the state. A statewide ERP solution would require a centralized, statewide project effort to map agencies' requirements to the Web-enabled PeopleSoft 8.8 and properly configure the application on the appropriate common architecture.

PROS

Implementing a statewide ERP financial system would provide an integrated solution that reports to USAS, which would remain the accounting system of record. The pros of this option include:

- Maximize savings through the use of standard processes based on best business practices and single instance of the ERP application
- Reduction in number of hardware platforms and software licenses required to support state financials
- Fewer modifications, thereby decreasing the total cost of ownership for the state
- Expedite progress to statewide data repository
- Upon full implementation, cost savings result from elimination of disparate agency financial systems and the “shadow” systems that are currently maintained in agencies

CONS

The cons of this option include:

- Substantial Upfront Costs: software license/use cost, statewide and agency resources for implementation, training, change management, data center infrastructure
- Fails to achieve the full benefits of ERP if USAS is not replaced
- Risks: agency support, complexity of individual agency business process change, massive data conversion effort required or existing systems will need to be maintained

OPTION 3: CONVERT USAS USER AGENCIES TO A STATEWIDE ERP FINANCIAL SYSTEM

A third option is the conversion of the USAS agencies to the ISAS application. This approach, similar to a statewide implementation, would require all user agencies (approximately 107) to employ a common set of business processes, therefore allowing the same version of ISAS to be used across agencies.

To fully assess the cost, benefit and risk of these alternatives, a comprehensive analysis and development of a business case should be pursued. For example, some of the actions will require shifting of financial allocation, and some, specifically replacing USAS with a new ISAS baseline, would require additional funding.

Future considerations for a financial ERP solution in the state should examine the viability of incorporating other state legacy systems, including USPS and SPA.

PROS

The pros of replacing USAS include:

- Re-deploy or eliminate the resources required to maintain USAS as a statewide financial data repository. The Statewide ERP can assume this function.
- Provide more flexibility with deployment approach if the CPA replaces USAS in the early phase of the project
- Same pros as option 2

CONS

The cons of replacing USAS include:

- Smaller agencies may not have the funds to support ERP
- CPA must develop interfaces to replace those used by the agencies and systems interfacing with USAS
- Similar risks and costs as 2

Conclusion

Examining and implementing methods to achieve more uniform financial ERP environments, will position the state to better leverage its resources. OMB Circular No. A-127 directs federal agencies to reengineer their work processes when implementing financial systems in order to facilitate financial management systems operational efficiency and effectiveness. The OMB requires that agencies reassess their work process to conform to commercial off-the shelf financial systems.

Implementing clear guidelines by which agencies must justify their requirements to modify software to meet business needs could deliver positive statewide benefits in that a single development team, managed by the Comptroller's Office, could eventually support the needs of agencies that are currently met by agency-specific project team staff.